Financial Markets

Irving Trust

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Economic Research &
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Recent headlines have begun to focus on international events and the prospect that international conditions might provide some insight into the future course of U.S. monetary policy. The Organization for Economic Cooperation and Development (OECD) just concluded a ministerial meeting that surely has laid the groundwork for the approach to be taken and the issues to be discussed at the upcoming Williamsburg economic summit. In a separate meeting, also held this week--involving officials from GATT (General Agreement on Tariffs and Trade), the OECD, the IMF, and trade ministers from several major industrialized countries--the case for freer world trade was pleaded. What do these events mean for U.S. policy?

At the OECD meeting, the member governments pledged themselves to: gear policies for growth and job creation; reverse protectionist trends; resolve the debt crisis through trade expansion; and help poorer developing countries. Concern that protectionist sentiment is spreading and that it must be stopped is reassuring. The danger posed by protectionism is real. But there are no concrete plans for action. Calls for less protectionism are always on the lips of internationalists. Less protection is the great "free lunch" on the international menu. By resisting protectionism we can better reap the gains from trade: more output, greater employment, and lower prices. This was the easy agreement, in principle. Less reassuring is the notion that dismantling protectionist tendencies will solve the LDC debt problem. Protectionism is really a political hot potato among more developed nations. Trade expansion will help LDCs over the long haul but will do little in the near term.

The OECD communique also addressed interest rates and monetary policy: Interest rates should be allowed to move lower; monetary growth targets should not be lowered in response to lower oil prices; monetary policy should not accommodate inflationary pressures; and structural budget deficits should be reduced. There is certainly language here to please everyone! The policy prescription pointed selected countries in certain directions. Yet it is unclear whether any <u>change</u> in policy will be forthcoming.

In the U.S. some have concluded that the Fed will cut the discount rate ahead of the Williamsburg summit. This, however, is unlikely. To achieve this result, the Administration would have to strike a deal with the Fed. Furthermore, the U.S. would surely hold a discount rate cut as a bargaining position for use during the summit meeting--if it were willing to cut rates at all. Moreover, it must be remembered that these summit meetings rarely produce substance. Why should this one be different? At best we should expect the summit conference to produce a "spirit of cooperation" to contrast with the Versailles summit. Ironically, an actual change in policy may not be necessary at Williamsburg to please the participants. Already, signs of the much desired growth are emerging in the U.S. and abroad. The timing of the meeting just might prove to be fortuitous for the participants. A change in U.S. policy remains as an unlikely possibility. Yet an agreement on international cooperation and coordination of policy will surely be reached.

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Market Yields

	5/13/83(Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	10.50%	10.50%	16.50%
Effective since	2/28/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	12.00
Federal Funds	8.25	8.38	14.50
Repurchase Agreements	8.25	8.38	14.25
U.S. Treasury Issues			
Bills			
3 months	8.30	8.30	12.90
6 months	8.49	8.43	13.36
1 year	8.69	8.59	13.47
Coupons			
2 years	9.28	9.23	13.78
4 years	9.68	9.63	13.79
7 years	10.11	10.08	13.65
10 years	10.20	10.16	13.51
Long Bond	10.36	10.30	13.16
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.25	8.30	14.20
3 months	8.30	8.35	13.90
6 months	8.45	8.30	13.85
1 year	8.80	8.70	13.75
Banker's Acceptances			
1 month	8.26	8.31	14.15
3 months	8.37	8.33	13.80
6 months	8.46	8.39	13.80
Eurodollar Deposits			
1 month	8.69	8.69	15.06
2 months	8.75	8.75	14.81
3 months	8.81	8.75	14.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.26	8.51	14.37
1 month	8.42	8.42	14.24
3 months	8.41	8.41	13.89
Bank Holding Companies			
1 month	7.97	8.17	13.84
Dealer Placed:			
3 months	8.41	8.44	14.85
New AA Corporate Utility Bond	11.30	11.30	15.95
Tax Exempt			
6 month Project Notes	4.75	4.70	7.55
1 year AAA Bond	5.00	5.00	7.30
5 year AAA Bond	6.50	6.30	8.75
20 year AAA Bond	8.15	8.30	11.50

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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